Compass Investor Site Tour

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Fireside Conversation and Q&A

Clare Hunt, Chief Strategy Officer, Compass North America

Hello and welcome everybody to the final part of our event today. My name is Clare Hunt. I lead strategy for North America.

Palmer, from a Compass perspective, we have sectorization as a key driver of our strategy and our success. So you have these sectors with these distinctive cultures, and as they grow and as Compass grows, how do you preserve what makes each distinctive and leverage the combined scale of Compass?

Palmer Brown, CEO Compass North America

Yeah, sure. We get asked often by many of you, what are your competitive advantages? Why are you winning? Why do you win? Procurement matters, sectorization matters. Scale, the ability to leverage investments, fixed and variable costs, semi-variable costs, that matters.

All those matter. But more important than anything is people and culture. There is absolutely no doubt. And I think we've got exceptional people and culture. We see that through working with folks day to day. We see how folks stay with our organization, just amazing tenure. We see how all companies, not just within our industry, but across industry lines, are trying to hire our folks.

I think that speaks to talent, and what they see. Yes, we have different sectors, and sectors have slightly different cultures. They have a different feel. You've been with a few of them today. So each of them have slightly different cultures and different feels, but there are some red threads that run through everything.

Things like the importance of safety for our consumers and our associates. The growth mentality, the entrepreneurial spirit, that's big. And what we've tried to do, and it's massively important to me, is to perpetuate this culture. This month has been 25 years for me at Compass.

I started as a finance and strategy analyst and, you know, wake up one day and here I am, CEO of North America. I haven't worked at a lot of places, but I know that doesn't happen everywhere, and I do think it speaks to culture. So in a lot of ways, I feel like I'm a product of the culture, and it's one of the reasons why it's massively important to me to perpetuate it.

I was talking a little bit about it at lunch. When we look at talent and promotions and leadership roles, and we've done a good bit of that recently, the biggest things to me, I start with values. Do they have the value set that we want representing us as an organization? And then it's IQ and EQ.

Do they have the IQ and the EQ to manage businesses of our size and complexity going forward? Now, if you can combine that with experience and everything else, then that's manna. But it starts with the value set and the IQ and the EQ. If we don't have that, then we don't even get anywhere else.

Clare Hunt

So as we look ahead, everybody's here to talk about growth. Palmer, as you look three, five years out, what are the things on the horizon that are shining brightest for you? And I guess more importantly, why do you think Compass is best positioned to capture those opportunities and continue to win?

Palmer Brown

Look, we're the market leader globally, North America, most all of the sectors where we operate, so clearly we're doing a lot of things well. That said, we are far, far from perfect. Everywhere we turn around we see opportunities to do better. And I know that if we can just make incremental improvements across the board, that will go a long way.

We don't have to swing for the fences to make progress. I think we just make incremental improvements in so many areas. That will go a long way. You couple that with the growth opportunities in the areas where we currently operate. So as you guys know, roughly half of our market is self-operated.

Now that varies sector by sector, but roughly half overall is self-operated. Right now a little more than half, about 55% or so of our new business wins comes from first-time outsourcing. Now we know that for us to be successful going forward, that algorithm has to remain. The majority of our new business wins needs to come from first-time outsourcing.

Those opportunities exist, and we're seeing more and more new opportunities in that vein. Lately we've seen a lot more consolidation of services from clients, where we're combining sectors to provide solutions for clients. And then we're always looking at the adjacent markets, sub-sectors.

The effect of that in investor speak is just increasing the TAM. But if it's airline lounges, we were nowhere in airline lounges seven or eight years ago, and upwards of a billion dollars in revenue now. Military is a place where we decided about two years ago that we saw opportunities there.

We weren't really playing in that space at all. We made some investments, and Peter Fetherston and his team have just done a magnificent job working with the US Army, who's outsourced for the first time. And thus far we're their only partner that they've selected. So we're always looking at those adjacencies.

We see lots of adjacencies going forward. So I think there's plenty of reasons to believe this can continue.

Clare Hunt

The opportunity now is to throw the floor open to all of you. You've had the opportunity to sort of look behind the curtain today and see our sites and everything they have to offer. So any questions you may have for us, we can either take individually or ask members of our team to give you the color.

Question

Great. Thank you so much for taking my question, and more importantly, thank you for showing us around today. A very great site visit. For example, the JPMorgan building. When I go in and see the offer, I'm wondering, is that the driver of the volume growth for you guys, or one of the key drivers?

So my question is really around volume. Do you think that with some of the flagships having a better offer and the ability to roll out to some of the other sites, do you see that as a sustainable driver for your volume growth to be quite a bit above zero, not just in the near term, but also the next two to five years or even beyond that?

How do you think about that? And more importantly for myself, when can Bank of America get the upgraded offer, please?

Palmer Brown

We can do whatever clients are looking for. The way we think about it is, if you have the ability to deliver at the highest offer, the highest spec, and then you couple that with the most efficient business model, so procurement synergies, labor efficiencies, overhead leverage, things of that nature, you combine those two together and you've got a winning hand wherever you play.

What I mean by that is, if a client is looking for the highest offer, like JPMorgan was. So I remember the JPMorgan presentation. We said, look, you're investing upwards of six billion in this facility. You're building the best of the best. You need to partner with the company that operates at the highest level most consistently.

And when you look at that from all objective measures, that's us. But we can deliver at that offer or that spec at a better cost proposition than anybody else. Similarly, if someone's looking at a given cost, we can deliver a higher spec at that cost than anyone else. So we believe we have both.

We believe we have a winning hand that we can play. I think we do it right most of the time, but certainly not all the time. We don't always get it right, and that's the struggle. But the opportunity then is to constantly evolve that offer for what clients are looking for.

Driving more volumes through, changing it. Maybe it's more labor efficient. Maybe it's schedule shifts, shoulder days, Mondays, Fridays, more density through the week. What does that look like in terms of what the offer is, the labor flexibility, having the technology that goes with it? And then it's always sharpening the pencil at all times on the efficiency side.

I think we do a very good job on procurement. I think we do an okay job when it comes to labor. I think it's an opportunity for us to do better. When I list areas where we have opportunities, we've got a lot of them, which is great. But labor, when you think of it, labor for us in North America is 15 billion in spend.

If we can pick up a little bit of that every single year, that's a nice benefit that we can invest both back into growth and drop some to the bottom line. So I think it's just sort of a constant evolution with that, if that makes sense.

Question

Thank you very much for a great day. Two questions, please. It feels a little bit like the competitive environment's getting a bit more intense, with both your two biggest competitors either winning more or saying they're going to win more new business.

Are you worried about returns or CapEx or margins on new business? And secondly, just specifically on data centers, I know it's only one aspect. Do you feel like you've been a little bit slow maybe on that front? Is there something we could expect going forwards in terms of the win rate, or are we just looking at different types of contract wins between you and one other competitor? Thank you.

Dominic Blakemore, CEO Compass Group

Thank you. Look, first of all, in terms of how competitive is growth, I think growth has always been competitive. You'll see that every quarter that we've reported, we've reported LTM gross new business that is significantly higher than the same period in the last year, at points that's been 10%, 15% and 18%.

So look, our TAM continues to grow, our pipeline continues to grow, our qualified pipeline continues to grow, and our conversion rates continue to perform at our levels, if not better. And that's resulting in very significant gross new business growth, which we're super excited by. And as Palmer said, the opportunity we see ahead of us is unchanged.

Look, is it more competitive? I think it's as competitive as it's always been. We are very pleased this year with our margin progression of what will be 20 bps. You saw that at the half year. So we are competing, winning more than our fair share, and accelerating our margins.

So I think we've got everything going right. We've always guided on the range in Capex. We've been within that range. It's a little higher when we're winning bigger, longer term contracts. We expect it to stabilize within the range over time. So I think all of the core and key financial metrics remain very positive.

I think what's really important for us is that we continue to open up those channels of growth opportunity. And that's what will sustain our growth over time. It's what truly obsesses us. Palmer's been 25 years. In February, I'll be 15 years on the board. We have truly grown consistently through that time at these levels.

And why is that? I think two or three things. One, we've made fabulous acquisitions, like both RA and Flik. RA and Flik joined us at 50 million dollars and a hundred million dollars, and they're respectively 2.5 billion and 2.1 billion. A few years ago, we shared with you a slide at the investor presentation which showed how accretive our acquisitions have been to organic CAGR in the years post-acquisition.

They've grown above the core and contributed to our growth. That's why we've pursued that strategy. I think it's why it's so important that the likes of Palmer and Danny are focused on what other opportunities there are for innovative businesses out there that can come into the Compass stable.

I think the second is, how do we find those additional channels of opportunity that we can win more than our fair share? And I think the airline lounges one is a great one. Eight years ago, we entered into it for the first time. We're now at a billion dollars of revenue in that subsector.

We see other opportunities to continue to do that, whether that's with military or other subsectors. And within that, data centers would be one of those, right? I don't think the conversation is just about data centers. I think the conversation is about an almost generational moment in the level of investment that's going to go into the technology environment. That's here in the US, it's internationally, albeit I think the international build-out will lag the US.

It's going to have extraordinary benefits for economies and also for the supply chain. And the supply chain isn't just about the data center, it's about all of the manufacturers and construction companies within that supply chain that are also our clients, and where their employees are our consumers, and they're going to be enriched by what's going on.

So I think there's going to be a mega halo effect that we will witness. And then there's individually and independently what we see in those opportunities. And the way we look at it, we think there are three buckets. There's the operation of data centers, of which we currently are the leading provider globally, with the hyperscalers.

And that is a combination of on-site services, be that vending, be that restauration, be that support services. I think the second is, let's call it asset-light provision of services, where either the construction companies or the ultimate data center owners will fund the build of accommodation villages, and the construction workers then require a suite of services.

That is very akin to what we've seen in the DOR sector. You're very familiar with what we experienced in Australia. These sites can have up to 4,000 workers on site. The accommodation village is responsible for their hoteling, room provision, laundry, cleaning, food, three meals a day, as well as adjacent services like gym and so forth.

So they can have a differentiated offer for what will be a very, very competitive space. I call those asset light. That's where either EPCs, EPCMs or the hyperscalers will invest in the construction of those assets. That is something we are very experienced in. We have the ESS brand that has done that in Canada, in the US, in Australia, in the Nordics, in the UK, and we can bring that offer into that space.

We're having conversations with clients at the moment about those opportunities. Many of them are in the pipeline. The pipeline is significant in those opportunities. We're not quantifying it and we're not talking to what it could yet be until we start to see those landed. And then latterly, the third bucket is what we call the more capital-intense end of that, where fundamentally it is also about the construction of the villages and taking the capital responsibility for that.

We've done that, as you all know, in Australia before. We've done it in Canada. We've done it in the UK. If the conditions and terms are right, we would be willing to do that again, and we're in conversation where those opportunities are real and present. You've got to remember, for us, a point of growth, a point of additional growth, is five hundred million dollars.

For it to move the needle materially beyond our existing algorithm, it's got to be very significant. And so if it becomes significant, we'll tell you. Until then, it's within our model, as it were. If this manifests as it's being described, could it give us the opportunity to perform in the upper ends of our range?

Absolutely. And if it were to unlock in a very material way, and it were to be more than that, then look, we would absolutely quantify that and tell you about it.

Question

First of all, thank you for a great day. Really enjoyed it, and it provided a lot of insight. The focus, of course, today was North America. It's always been intriguing to me, though, that the European margins seem lower than the North American margins, and I'm curious if that's intrinsic to how...

You know, we didn't have an opportunity to visit the European operations today, but I'm curious what would have been different if we had, and is that a structural difference, or are there opportunities to help bridge that gap?

Petros Parras, CFO Compass Group

Great question. So I think if we were to be in Europe today, what you would experience is a growth-orientated culture that has improved in the last five to ten years substantially, and come to par with North America on the way our teams think about growing the business.

I think you would experience really good progress in sectorization, through organic initiatives we have put in place for the last five, six years, as well as acquisitions we have executed in the last three, four years. That places us in a situation, I would say, where when North America started to sectorize 20 years ago and we enjoyed a double-digit CAGR growth across all of the sectors, this is what we're witnessing now in Europe with our organic sectorization and acquisitions.

The third thing you will see is a true focus on hospitality, and I think we talked a lot today about hospitality and how our chefs are at the center of everything we do. You will see the European team serving a lot of our international teams and a lot of our international clients based out of the United States.

And this is very important for us, because we're in a position to give them holistic solutions without having headaches. And you will also see a purchasing and GPO capability similar to North America in four of our top core European markets. So when you take the recipe of the North American success for the last 25 years, consistently, I think we are emulating this in Europe.

And we're in a position to be quite excited actually about what we can do and what we're doing today, and how we can do even better for the future when it comes to growth and margin expansion for the years to come.

Palmer Brown

If you take the best of what we do outside of North America, I believe it is on a par with what we do in the US. I think the average of what we do outside of North America, we're seeking to improve. I think that's an area of opportunity. And I think the food buy and procurement model here gives us a distinct advantage that I think no one has outside of the US. And I can't labor this point enough, I think we're really now beginning to understand what we have to do to build that and give ourselves that competitive advantage.

Question

Thanks for your time. Are there any small upsides in retention in North America? Because again, small margins there just take the pressure off the business having to do the gross new wins that you're doing right now, and obviously that would be beneficial to profitability as well.

Palmer Brown

We think retention's the most important metric in the business. I always say this, that's our clients giving us a report card on how well we're doing. You can't grow, and you can't grow sustainably, if you have poor retention, if you have a leaky boat.

I think there's also a bit of momentum in the space, and clients talk. It's harder to win new business if your retention rate is lower. Look, we've got 97% retention in North America, which is great. That's a very objective view, black and white.

That's not subjective in any way. And when you look at that, that's a phenomenal rate. On the flip side, that's losing a billion dollars in business a year. And it typically comes at a higher margin, because when you think about the margin profile within the life cycle of a contract, you build margin over time.

We place an enormous emphasis on pre-empts, i.e., extension of contracts before they come to formal rebid. We have a saying that when one of our contracts goes to formal tender, a lot of things can happen, and none of them are good. And what we mean by that is, you'll probably lose some more margin, maybe you have to invest even more, you're going to spend a lot of time and distraction, and then you have a possibility of losing it altogether.

So we're starting to track that a whole lot more. I think our sectors are doing a great job about making that an even bigger point of emphasis. And overall, I do think we can do better. When I look at the reasons why we're losing business, some of them are structural, some of them just happen.

But you know what? Some of them, we just screw up. And we can do a better job of that, and we can do a better job of identifying those issues earlier. We're doing a good bit of work on that kind of thing right now. So when you look at us going forward, and it's something we do talk about a lot in the business, is how do we get that rate bigger?

And to put more focus on the absolute dollars of lost business, try to hold that constant in a growing business, and therefore the rate will decline. That's the goal, and we think there's opportunities to do that.

Petros Parras

I will just add one comment to Palmer's thoughts, which is, you heard today about E15, how important the data insights are for us as a business.

And if you think about the wealth of data we have in this business for the last ten, fifteen years, when we bid for businesses, when we retained, when we pre-empted, where we have client feedback and net promoter scores. And when you have access to all of this data and you're in a position to use technology to triangulate what the clients need, when they need it, and when we feel well in advance that some of the clients are in jeopardy, this is where technology can do so many good things for us.

And I think specifically in North America and core European markets, we have seen some really great process improvement in this space.

Clare Hunt

Excellent. Thank you so much for joining us today. We appreciate you taking a day out of your time. I hope you feel it's been truly worthwhile, that you've learned more about Compass and the people behind the business. And we look forward to continuing to work with you over the years to come.